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EXDIS

STATE FOR EB/IFD/OMA
DEPARTMENT PASS TREASURY FOR ITE

E.O.12356: DECL: 12/2/82

TAGS: ETRD, EEWT, UK

SUBJECT: STATUS OF UK BID FOR ASTRAKHAN SOUR GAS PROJECT

REF: LONDON 24929

1. ENTIRE TEXT SECRET.

2. SUMMARY:

EMBOFF SPOKE DECEMBER 1 WITH SOURCE DESCRIBED REFTEL
(PROTECT) REGARDING STATUS OF TRACHEM UK LTD. EQUIPMENT

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State Dept. review completed

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PROCUREMENT EFFORTS FOR THE ASTRAKHAN GAS GATHERING CONTRACT. WE INDICATED MACHINO-IMPORT WILL PROBABLY LET THE CONTRACT WITHIN TWO WEEKS. BRITISH STEEL CORPORATION IS RELUCTANT TO SIGN BECAUSE OF SOVIET PRODUCT LIABILITY REQUIREMENTS, GIVEN THE CORROSIVE EFFECTS OF HIGH SULPHUR ON WELL CASINGS AND EQUIPMENT. U.S. STEEL MAY REPLACE THE BSC BID. UK BANK WILL LEAD FINANCING CONSORTIUM WITH COSMETIC 7.8 PERCENT RATE FOR 8.5 YEARS. CONTRACT PRICE WILL BE RAISED 20 PERCENT TO COVER MARKET COST. BRITISH EXPORT CREDIT GUARANTEES HAVE BEEN ARRANGED. MANNESMANN (FRG) SEEMS TO HAVE LEAD CHANCE, WITH CANADIANS AND JAPANESE CLOSE BEHIND.

SUMMARY.

3. EDITH REICH HAS BEEN REPRESENTING TRACHEM UK LTD. AT THE COLOGNE NEGOTIATIONS WITH MACHINO-IMPORT. SHE EXPECTS THE SOVIETS TO CONCLUDE THE ASTRAKHAN GAS-GATHERING CONTRACT WITHIN THE NEXT TWO WEEKS. AS INDICATED REFTEL, TRACHEM UK IS WELL KNOWN TO SOVIETS BUT TOO SMALL TO SIGN ENTIRE CONTRACT DIRECTLY WITH THE SOVIETS. TRACHEM WILL SELL THEIR PROCUREMENT PACKAGE TO A LARGER CONTRACTOR WHO WILL PROVIDE THE STEEL PIPE AND TUBE (ABOUT 110 MILLION DOLLARS OF THE TOTAL 286 MILLION DOLLAR CONTRACT) AND SIGN THE OVERALL CONTRACT WITH MACHINO-IMPORT.

4. TRACHEM'S ATTEMPTS TO HAVE BRITISH STEEL CORPORATION SIGN AS THE CONTRACTOR HAVE COME TO A STANDSTILL. BSC IS BALKING AT MACHINO-IMPORT WARRANTY DEMANDS ON THE PIPE AND TUBE PERFORMANCE. APPARENTLY THE SOVIETS WILL NOT RELEASE THE DESIRED METALLURGICAL SPECIFICATIONS, PROVIDING ONLY THE OPERATING ENVIRONMENT DETAILED IN REFTEL DOCUMENT. BSC IS PARTICULARLY CONCERNED THAT POSSIBLE FAILURE OF THEIR WELL CASINGS, DUE TO THE CORROSIVE EFFECTS OF THE EXCEPTIONALLY HIGH SULPHUR GAS, COULD EXPOSE THEM TO SIGNIFICANT LIABILITY. WHEN COUPLED WITH BSC'S DISCOMFORT OVER PERFORMANCE BOND REQUIREMENTS ON APPROXIMATELY 176 MILLION DOLLARS IN NON-BSC EQUIPMENT, THE COMPANY PROBABLY WILL BACK OUT ALTOGETHER.

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5. SOURCE DOES NOT BELIEVE BSC RELUCTANCE IS DUE TO U.S. POLICY OR HMG PRESSURE BUT RATHER CONSERVATIVE MANAGEMENT. WHEN U.S. PIPELINE SANCTIONS WERE IN EFFECT, BSC NEGOTIATORS ALLEGEDLY CONFIRMED WILLINGNESS OF IAN MCGREGOR (BSC CHAIRMAN WHO ALSO HOLDS U.S. CITIZENSHIP) TO HAVE COMPANY PROCEED WITH POSSIBLE ASTRAKHAN DEAL.

6. AS OF DECEMBER 1, TRACHEM WAS NEGOTIATING THROUGH THE LONDON AND DALLAS OFFICES OF THE OILWELL DIVISION OF U.S. STEEL THE POSSIBILITY THAT USS WOULD BE THE MAIN CONTRACTOR. USS WOULD PURCHASE THE EQUIPMENT PROCUREMENT PACKAGE FROM TRACHEM AND GAIN THE 110 MILLION DOLLAR CONTRACT FOR PIPE AND TUBE. HOWEVER, USS IS ALSO WARY OF THE SULPHUR ENVIRONMENT ON THE GAS EQUIPMENT AND THE DANGER OF A BLOWOUT, ALLEGEDLY COMMENTING THAT IF IT WAS THEIR MONEY THEY WOULDN'T DRILL THE WELLS.

7. BARCLAYS BANK INTERNATIONAL LTD. IS LEADING THE UK FINANCING CONSORTIUM, WITH OFFER TERMS OF 7.8 PERCENT OVER 8.5 YEARS. SOURCE STRESSED COSMETIC NATURE OF RATE, WITH CONTRACT PRICE BEING RAISED TO COVER REAL FINANCING COSTS. LISTED COST OF EACH ITEM IN THE CONTRACT IS BEING INCREASED BY 0.1965 EXACTLY. BRITISH EXPORT CREDIT GUARANTEE DEPARTMENT (ECGD) COVERAGE HAS BEEN ARRANGED. FINANCING PACKAGE SHOULD HOLD EVEN IF USS TAKES OVER CONTRACT AND ECGD COVERAGE WOULD REMAIN FOR UK PORTION OF EQUIPMENT. THE SOVIETS ARE REFUSING TO PROVIDE ANY UP FRONT MONEY FOR THE CONTRACTOR. THIS IS PRESENTING SOME COST PROBLEMS IN EQUIPMENT PROCUREMENT SINCE A 30 PERCENT DOWNPAYMENT IS COMMON FOR FIRMS THAT MUST TOOL UP FOR PRODUCTION RUNS.

8. SOURCE CONTINUES TO BELIEVE MANNESMANN HAS THE BEST

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CHANCE OF GETTING THE CONTRACT, WITH THE JAPANESE AND
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USS, BUT HE DOES NOT UNDERESTIMATE EDITH REICH'S
EXTENSIVE CONNECTIONS WITH THE SOVIETS. SHE IS OPERATING
THROUGH TRACHEM UK LTD., RATHER THAN HER U.S. FIRM FOREIGN
TRANSACTIONS CORP. (FTC), TO AVOID PLACING ASSETS WITHIN
REACH OF U.S. COURTS, CONSIDERING NUMEROUS CONTRACT SUITS
AGAINST FTC.

9. AN ADDITIONAL 40 MILLION DOLLAR CONTRACT IS BEING
FINALIZED BETWEEN MACHINO-IMPORT AND THE WEST GERMAN FIRM
OF SALZGITTER FOR THE SULPHUR SEPARATOR UNITS AND THE
TRANSPORTATION TERMINALS FOR LIQUID AND POWDER SULPHUR.
LOUIS

END OF MESSAGE

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